

# EXHIBIT 108



Robert W. Wright  
Director

## Illinois Department of Public Aid

Prescott E. Bloom Building  
201 South Grand Avenue East  
Springfield, Illinois 62763-0001



### TELEFAX COVER SHEET

DATE

*October 4, 1995*

TO

*Robert Coolidge*  
*South Dakota Medicaid*

FROM MARVIN L. HAZELWOOD, Manager  
Pharmacy and Ancillary Service Programs  
Bureau of Comprehensive Health Services

4 PAGE(S) TO FOLLOW



URGENT

COMMENTS

*AWP vs cost survey*

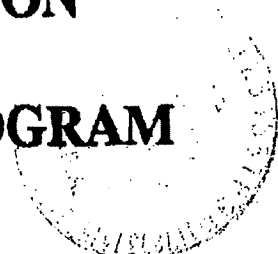
If there are any problems, PLEASE contact  
the Bureau of Comprehensive Health Services  
TELEFAX # (217) 524-7194

(WFP007462)

AWP-IL-00010038

# FACSIMILE TRANSMISSION

## MEDICAID PHARMACY PROGRAM ADMINISTRATORS



DATE: September 27, 1995

TO:

Joe Hicks - Alabama  
David Campana - Alaska  
H. Rehm P. Meyer - Arizona  
Thelma Underwood - Arkansas  
Mike Neff - California  
Kim Gordon - Colorado  
Elizabeth Geary - Connecticut  
Cynthia Denemark - Delaware  
Jerry Wells - Florida  
Francis Lipscomb - Georgia  
Lynn Donovan - Hawaii  
Mary Wheatley - Idaho  
Marvin Hazelwood - Illinois  
Marc Shirley - Indiana  
Joe Mahranholz - Iowa  
Gene Stephens - Kansas  
Gene Thomas - Kentucky

M.J. Terrebone - Louisiana  
Bob Carroll - Maine  
Pat Burkholder - Maryland  
Arnie Shapiro - Massachusetts  
Sandy Kramer - Michigan  
John Patrias - Minnesota  
Jim Steele - Mississippi  
Susan McCann - Missouri  
Jeffrey E. Ireland - Montana  
Max Ward - Nebraska  
Laurie Squartsoff - Nevada  
Use Farrand - New Hampshire  
Ed Vaccaro - New Jersey  
Chuck Reynolds - New Mexico  
Mark Butt - New York  
Benny Ridout - North Carolina  
Ann Haase - North Dakota

Robert Reid - Ohio  
Donna Huckleberry - Oklahoma  
Bev Castor - Oregon  
Joe Concino - Pennsylvania  
Paula Avarista - Rhode Island  
Caroline Sojourner - South Carolina  
Bob Coolidge - South Dakota  
Leo Sullivan - Tennessee  
Curtis Burch, Jr. - Texas  
Raedell Ashley - Utah  
Chet Briggs - Vermont  
David Shepherd - Virginia  
Garth Holmes - Washington  
Donna Bovall - Washington, DC  
Mary Ann McNeil - West Virginia  
Michael Boushon - Wisconsin  
Steve Johnson - Wyoming

NUMBER OF PAGES INCLUDING COVER PAGE: 2

FROM: Kathy Berdusco  
708-470-6614

CONTACT: Barbara Waggoner  
708-470-3680

FAX #: 708-967-2093

COMMENTS: Please complete the attached survey from Robert Coolidge, South Dakota Medicaid, and ..

return by **FAX 605/773-4855**

AWP-IL-00010039



**DEPARTMENT OF SOCIAL SERVICES**  
**OFFICE OF MEDICAL SERVICES**  
700 Governors Drive  
Pierre, South Dakota 57501

**DATE:** 9-27-95  
**TO:** Medicaid Pharmacy Administrators  
**FROM:** Bob Coolidge, R.Ph.  
South Dakota, Medicaid  
**REGARDING:** Average Wholesale Price

Dear Medicaid Pharmacy Consultants:

I am requesting information regarding the relationship between AWP and pharmacy cost. If any states have information, I would appreciate your input. I am looking for your formula used for calculation of reimbursement and the relationship of AWP to the actual cost of the product.

Actual Pharmacy Acquisition Cost = AWP less \_\_\_\_\_%

Reimbursement formula for the state of \_\_\_\_\_ = AWP less \_\_\_\_\_% plus \_\_\_\_\_

*See Attached  
pages*

Thanks for your timely assistance.

Please FAX to:

Robert Coolidge, R.Ph.  
South Dakota Medicaid  
NEW FAX NUMBER (605) 773-4855

*Thanks!  
B.C.*

AWP-IL-00010040



Robert W. Wright  
Director

## Illinois Department of Public Aid

Prescott E. Bloom Building  
201 South Grand Avenue East  
Springfield, Illinois 62763-0001

October 4, 1995

Robert Coolidge, R.Ph.  
Department of Social Services  
Office of Medical Services  
700 Governors Drive  
Pierre, South Dakota 57501

Dear Mr. Coolidge:

This is in response to your September 27, 1997 survey letter about AWP and actual costs. I thought I'd write a short book on the subject rather than fill in the blanks on your survey.

First, if you ever collect auditable data which factually answers your questions you'll be a rich man from the royalties. None of the entities who sell drugs are going to easily make the information available and you really can't get it from pharmacy invoices because of all the volume incentives and rebates subsequently paid. Additionally, some products don't even go through wholesalers and instead are sold directly. In other cases, a large national chain may buy direct from the manufacturer (regardless of what the local sales person may tell you) while all the community pharmacies must purchase through some wholesaler.

I understand from reliable industry sources that "on average" retail pharmacies are buying at approximately AWP minus 17% with some drugs a little more and some a little less. However, the national chains are likely buying at least some of the same stuff at AWP minus 25% or more. Further, the closes pharmacies in your state who serve only nursing homes, are probably buying many products at AWP minus 30% or more.

Our formula for maximum reimbursement is:

Single Source Products--AWP minus 10% plus a dispensing fee of \$3.58 (minus \$0.28) or 10% of the AWP minus 10% up to a maximum of \$15.00 (minus \$0.28) with the 28¢ reduction being a cost cutting step negotiated this last legislative session.

Multiple Source Products--the lower of AWP minus 12%, the Federal Upper Limit, or the State Upper Limit plus a dispensing fee of \$3.58 or 10% of the amount determined above up to a maximum of \$15.00. For multiple source drugs, the savings initiative was the addition of the AWP minus 12% step.

AWP-IL-00010041

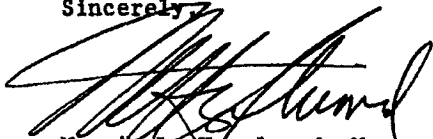
Robert Coolidge, R. Ph., South Dakota Medicaid (continued)  
October 4, 1995  
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If you're looking for a way to cut reimbursement, don't look at returning to actual acquisition cost because you'll end up with nothing but negative audit findings because you were wrong with the acquisition cost numbers you used (actual acquisition cost is really not known for as long as 12 months after the store purchased the drugs). If you're looking for something to use in "attesting" to your reimbursement methodology for your State Plan, you're better off just "attesting" and letting it go at that.

If I could implement the reimbursement I wanted, for single source drugs it would be AWP minus 13% (that's about the average HMO's pay) plus a dispensing fee of \$2.75 (about 25¢ more than the average HMO dispensing fee). For multiple source drugs I would make extensive use of State Upper Limits as neither the FUL or AWP mean anything for generic drugs. I would also set up an entirely different reimbursement for closed pharmacies serving only nursing homes. In the end these things end up being negotiated with the pharmacy industry so make sure your bases are covered before you start.

Feel free to call me if you have any questions after reviewing all your responses. I'm at (217) 524-7143. You will usually have to leave word with my secretary, Sandy, and I'll get back to you.

Sincerely,



Marvin L. Hazelwood, Manager  
Pharmacy and Ancillary Services Programs

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AWP-IL-00010042